

Message Text

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ACTION NEA-12

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

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FM AMCONSUL KARACHI

TO SECSTATE WASHDC 7598

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E.O. 11652: N/A

TAGS: ECON, SWEL, PK

SUBJECT: FORTHER ESTIMATES CONCERNING FLOOD DAMAGE TO COTTON CROP

REF: KARACHI 1988

SUMMARY: DURING THE COURSE OF RECENT CONVERSATIONS WITH THE PRESIDENT OF THE KARACHI CHAMBER OF COMMERCE AND INDUSTRY AND MEMBERS OF HIS STAFF AS WELL AS WITH EXECUTIVES OF THE LEADING FOREIGN COTTON TRADING FIRMS IN KARACHI, CONGEN OBTAINED FURTHER INFORMATION CONCERNING EXPECTED LEVEL OF UPCOMING COTTON CROP. BOTH ESTIMATES, WHICH WE BELIEVE BASED ON SOLID INFORMATION, INDICATED DAMAGE CONSIDERABLY LESS THAN ESTIMATED BY GOP IMMEDIATELY FOLLOWING FLOOD. REDUCTION CROP LEVEL IN SIND FROM THAT OF LAST YEAR WILL BE NEGLIGIBLE SINCE WATER DID NOT REACH MOST COTTON AREAS. DAMAGE IN PUNJAB PROBABLY AROUND 7 PER CENT. TOTAL COMMERCIAL COTTON CROP ESTIMATED AT MINIMUM OF 3.5 MILLION BALES AND COULD REACH MAXIMUM OF 3.8 TO 4 MILLION BALES IF WEATHER CONDITIONS CONTINUE IDEAL AS AT PRESENT. END SUMMARY.

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1. KARACHI CHAMBER PRESIDENT KANDAWALLA AND SENIOR VICE PRESIDENT ARSHAD, BOTH OF WHOM HAVE BACKGROUND IN COTTON INDUSTRY, ESTIMATED LOSS IN PUNJAB AT SEVEN TO EIGHT HUNDRED THOUSAND BALES AND VERY LITTLE, IF ANY, IN SIND. IF FLOODS HAD NOT OCCURRED THEY BELIEVED CROP THIS YEAR WOULD HAVE REACHED 4.7 TO 4.8 MILLION BALES. ACCORDING TO KANDAWALLA'S LATEST INFORMATION, RECEIVED FROM ASSOCIATES A FEW DAYS AGO, CROP EXPECTED REACH 3.8 TO 4 MILLION BALES THIS YEAR. HE BELIEVED THERE WOULD BE A SURPLUS OF 1 MILLION BALES FOR EXPORT, 800,000 OF WHICH WOULD BE STAPLE COTTON AND 200,000 DESI. THOUGHT LOCAL CONSUMPTION WOULD REACH ABOUT 3 MILLION BALES, OWING TO INSTALLATION OF MORE SPINDLES AND DESPITE SOME CONTINUING LABOR SLOW-DOWNS. CONSUMPTION LAST YEAR REACHED 2.8 MILLION BALES HE SAID. CHAMBER BELIEVES NEXT YEAR'S CROP WILL BE EXCELLENT WITH COTTON ACREAGE MAXIMIZED AND HIGHER YIELD PER ACRE IN ACCORDANCE WITH CONTINUING TREND TOWARD HIGHER YIELDS AS EVIDENCED OVER LAST SEVERAL YEARS.

2. H. GASSMANN, GENERAL MANAGER OF VOLKART LTD. AND P. VOGEL, HEAD OF HIS COTTON DEPARTMENT, DURING CALL AT CONGEN OCTOBER 10 FOLLOWING VOGEL'S EXTENDED VISIT TO PUNJAB COTTON AREAS DAMAGED BY FLOOD, SAID DAMAGE NOT AS BAD AS ORIGINALLY THOUGHT. DAMAGE IN SIND HAD BEEN NEGLIGIBLE SINCE COTTON FIELDS AWAY FROM FLOOD AREAS AND DAMAGE IN PUNJAB PROBABLY NOT MORE THAN SEVEN PERCENT FOR LOSS ABOUT HALF-MILLION BALES. GASSMANN AND VOGEL THOUGHT SIND CROP OF STAPLE COTTON THIS YEAR WOULD BE AT LEAST ONE MILLION BALES WITH MAXIMUM OF 1.1 MILLION IF WEATHER CONTINUED GOOD. SIND DESI CROP WOULD AMOUNT TO ABOUT 75,000 BALES AND THERE WOULD BE SOME TEMPTATION TO MIX DESI WITH STAPLE COTTON IN VIEW CONTINUING HIGH DEMAND. CROP 15 TO 20 DAYS LATE THIS YEAR AND CROP COULD REACH 2.8 MILLION BALES IN PUNJAB IF FRUITING CONTINUES DEVELOP FAVORABLY AS IT IS AT PRESENT. BY NOVEMBER 1 VOLKART CAN GIVE MORE ACCURATE PICTURE ON EXPECTED CROP LEVEL BUT BELIEVES COMBINED SIND AND PUNJAB CROP WILL REACH MINIMUM 3.5 AND MAXIMUM 3.8 MILLION BALES, (THIS FIGURE EXCLUDES UNDETERMINED AMOUNT, PERHAPS LIMITED OFFICIAL USE

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COUPLE HUNDRED THOUSAND BALES, WHICH TRADITIONALLY RESERVED FROM BALING AND COMMERCIAL SALE BY LOCAL PRODUCERS FOR HOME HAND LOOM SPINNING, AND COULD ACCOUNT FOR SLIGHTLY HIGHER ESTIMATE GIVEN BY CHAMBER OFFICIALS.) VOGEL ALSO BELIEVES NEXT YEAR'S CROP WILL BE VERY GOOD BECAUSE OF HIGHER ACREAGES BASED ON CONTINUING HIGH PRICES.

3. VOLKART OFFICIALS ADDED, IN CONFIDENCE, GOVERNMENT

TAKE-OVER OF COTTON TRADE HAD BEEN DEBATED AT LENGTH IN MID-JULY WITHIN GOP BUT THAT RECOMMENDATIONS OF GOVERNOR OF STATE BANK, TO EFFECT COUNTRY COULD NOT AFFORD TO EXPERIMENT WITH ONLY MAJOR FX EARNER AND THAT COTTON TRADING SHOULD STAY IN PRIVATE SECTOR, PREVAILED. GOP THEN DECIDED LEAVE COTTON TRADE IN PRIVATE SECTOR UNTIL AT LEAST SEPTEMBER 1974 WITH REGULATION ACHIEVED THROUGH MANIPULATION OF EXPORT DUTY LEVELS. HOWEVER, COMMERCE SECRETARY NAIK, ALTHOUGH OPPOSED COMPLETE NATIONALIZATION, WANTS GOP GO INTO COTTON MARKETING IN LIMITED WAY AS MEANS OF MAKING ADDITIONAL CHECK ON POSSIBLE PHONEY PRICING TO EFFECT ILLEGAL CURRENCY TRANSFERS ABROAD.

4. COMMENT: GOP DECISION, ANNOUNCED KARACHI PRESS OCTOBER 11, TO REMOVE BAN ON EXPORT STAPLE COTTON, ORIGINALLY ISSUED AUGUST 28 DURING FLOOD CRISIS, SEEMS FURTHER INDICATION ORIGINAL GOP ESTIMATES OF COTTON CROP DAMAGE WERE EXCESSIVE. REPS OF ALL PAKISTAN TEXTILE MILLS ASSOCIATION HAVE SUGGESTED EXPORT CEILING OF 100,000 BALES STAPLE COTTON UNTIL MID-NOVEMBER WHEN FINAL ESTIMATES ON THIS YEAR'S COTTON CROP WILL HAVE BEEN RECEIVED.
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